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MOTOR VEHICLE TAXATION

A Submission By

THE AUTOMOTIVE TRANSPORT ASSOCIATION OF ONTARIO

To

THE ONTARIO COMMITTEE ON TAXATION

JANUARY, 1964

439 QUEEN'S QUAY W., TORONTO 2-B, ONT.
(on the waterfront at Spadina Avenue)

EM. 3-4491

THE AUTOMOTIVE TRANSPORT ASSOCIATION OF ONTARIO (INC.)

AFFILIATE
CANADIAN TRUCKING
ASSOCIATIONS (INC.)

January 17th, 1964.

Mr. Lancelot J. Smith, F.C.A.,
Chairman,
The Ontario Committee on Taxation,
88 University Avenue,
Toronto 1, Ontario.

Dear Sir:

We appreciate the opportunity of making representations to your Committee and have pleasure in enclosing our submission which confines itself to motor vehicle taxation. The submission was approved by the Board of Directors of the Association at a meeting held on January 14th.

There are two other forms of taxation which cause inequity to truck owners to which we would like to draw your attention.

First, under the Retail Sales Tax Act trucking equipment, and repairs thereto, are subject to tax while the tax is not levied on equipment owned by competitive agencies. Included in the exemptions are:

(a) Railway rolling stock, and repairs thereto,

(b) Vessels of more than 500 tons gross, and

(c) Aircraft, normally engaged as common carriers in foreign or interprovincial trade, and repairs thereto.

We respectfully submit these exemptions undermine the economic basis of fair competition between the trucking industry and other modes of transportation.

Second, under the Ontario Corporations Tax Act the Treasury Department has ruled: "that the possession (by a non-resident corporation) of an Extra-Provincial Operating License or other permit granting a corporation the right to bring its vehicles into Ontario constitutes holding assets in Ontario" whereas other non-resident corporations not holding or required to hold an Extra-Provincial Operating License - issued under The Motor Vehicle Transport Act (Canada) - may register and operate vehicles in Ontario without being deemed to hold assets in this province. This discriminates against legitimate public carriers.

We trust our views will prove of assistance to your Committee.

Sincerely,

P.A. Dick,
President.

J.O. Goodman,
General Manager.

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INTRODUCTION

The Automotive Transport Association of Ontario is a voluntary, non-profit organization of inter-city truck owners. It was formed in the City of Hamilton in 1926 and incorporated under the Ontario Companies Act in 1928. Objects of the Association are:

> "To promote and further the interests of the automotive transport industry; to maintain the rights and privileges of inter-urban truck owners; to develop and encourage high standards of efficiency and safety; to promote and undertake publications in the interest of the automotive transport industry; to collect and disseminate information relative to the operation and conduct of the industry; to undertake co-operative advertising on behalf of the industry; to create prestige valuable in dealing with government agencies, users of transportation services, and the public; to purchase, hold, lease, sell or mortgage real and personal property as may be required in further attainment of the above objects; and to do all such things as are incidental or conductive to the attainment of the objects of the Association."

Down through the years the Association has kept pace with the demands of the industry by expanding its activities to cope with the multitude of problems inherent in the changing times. The Association has given constructive leadership in the development of a vibrant industry which is today serving every section of the Provincial economy.

Today, the ATA embraces in its membership some 1,500 truck owners who operate approximately 46,000 vehicles and employ in the neighbourhood of 70,000 persons. Members are located not only in every section of Ontario, but also in six other Provinces and eleven States. They include "for-hire" carriers, ranging from owner-drivers to operators of the largest fleets in the country, as well as private carriers. Forty per cent of our members own less than five vehicles apiece.

We much appreciate the Committee's invitation to express our views on the tax and revenue structures of the Provincial and local governments in Ontario and concur with your opinion that public funds should be "raised in a manner which is as equitable and conducive to the continuing economic prosperity of the province as possible."

Within the last two years, we have made submissions on highway finance and motor vehicle taxation to the Minister of Highways and the Minister of Transport[1]. In this submission we have extracted from our previous briefs those parts which we believe will be most helpful to the Committee.

[1] Highway Financing and Related Problems, February 1962 and Equity in Motor Vehicle Taxation, December 1962.

In recent years, some very inaccurate statements have been made in regard to motor vehicle owners' past and future tax contributions, the payments made by heavy trucks, and the case for a new third-structure weight-distance tax in Ontario. We have deemed it advisable to comment on these allegations for the purpose of showing the extent to which they are based on false assumptions, incorrect statistics and lack of scientific evidence.

ONTARIO'S HIGHWAY "NEEDS"

When deciding the amounts which shall be spent on highways (including municipal subsidies) in future years, members of the Government will weigh the benefits of an improved road and street network against the demands for other public services, such as health and education. At the same time, they will no doubt be strongly influenced by the dollar estimates of urban and rural highway "needs" contained in Ontario's Roads and Streets, published by the Department of Highways in December 1958.

The stated amount of these needs is vast--no less than $7.1 billion for the Province and municipalities combined. Against this, we estimate that over the program period the Government of Ontario alone will receive an almost equal sum ($6.8 billion) in revenue from motor vehicle taxes. The payment of this huge amount, assuming the continuance of present tax rates, will have a powerful effect on the profitability and extent of motor vehicle operations generally. In particular, it may well decide the fate of P.C.V. operators, who are experiencing increasing difficulty in meeting subsidized railway competition. It is obvious that the validity of the total "needs" figure of $7.1 billion must be subjected to the closest possible scrutiny.

It is important to remember that the technique of carrying out needs studies is still in a relatively early stage of development. Much further progress must be made before their results can be accepted with confidence.

It does not follow that because a given volume and composition of motor vehicle traffic is predicted for (say) 1977, it must inevitably be accommodated. Quite naturally, highway engineers are prepared to build roads of any length or standard: questions such as the economic "optimum" distribution of public expenditures in general, or highway expenditures in particular, are not their affair. But this Association, whose members pay a substantial part of the motor vehicle tax revenue collected by the Ontario Government, is vitally interested in ensuring that expenditure on the highway system as a whole is not excessive (for example, through the construction of highways in sparse traffic areas, the cost of which is charged to motor vehicle owners) and that it is properly distributed among the different parts of the system. There is an obvious need for the use of economic investment criteria when making estimates of future highway needs.

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FINANCING THE HIGHWAY PROGRAM

The most convenient situation, for all parties, would be where highway expenditures were kept in close step with highway revenues over the remaining 14 years of the program period. The total Provincial and municipal expenditure planned for any given year would then approximate the combined revenue estimated to become available to meet that year's expenditure.

However, heavy construction backlogs exist (particularly in urban areas) and the Government has announced its intention to remove them as rapidly as possible. Insofar as it will reduce total cost and enable improved facilities to be enjoyed at an earlier date, the Association has no quarrel with such a policy. It will, on the other hand, call for abnormally heavy outlays during the early years of the program, which may considerably exceed the current highway revenues accruing in those years. Recognition of this fact is implicit in the statement on Page 42 of the 1958 needs study:

> "Should it be desired to eliminate the current backlog on all systems and catch up with traffic needs at a faster pace than one-twentieth each year for 20 years, then more funds would be required in early years, and less in later years. Unfortunately, this is the opposite of the gradually increasing income that governments can expect as population and traffic rise."

We urge most strongly that, under these special non-recurrent circumstances, the Government avoid adherence to a rigid "pay as you go" policy. The matching of planned expenditure with expected revenue during the relatively short "catch-up" period would inevitably require an increase in motor vehicle tax rates. This would be neither fair nor advisable, for the following reasons.

First, during the past seven years there have been several major increases in motor vehicle taxes (apart from smaller increases for passenger cars and light commercial vehicles.)

On January 1, 1956, there was a general upward revision of registration fees, ranging from 40 per cent for passenger cars and other light vehicles to over 60 per cent for heavy trucks and trailers. More than 50 per cent of the additional revenue produced by these changes is being paid by the trucking industry.

On February 22, 1957, the tax on gasoline and diesel fuel was raised from 11 to 13 cents per gallon.

Only five weeks later, on April 1, 1957, the diesel fuel tax was increased by 54 per cent to 20 cents per gallon. An investigation carried out by the Department of Transport showed the inequity of the 20 cent rate on diesel fuel, which was reduced a year later (on April 1, 1958) to 18½ cents per gallon.

Increases in the gasoline and diesel fuel taxes have a severely adverse effect on the profitability of commercial vehicle operations. Although they form only 15.2 per cent of registrations of motor vehicles of all types,

commercial motor vehicles are now paying some 40 per cent of the total revenue from these two forms of tax. The latter impose a particularly heavy burden on P.C.V. operators, whose vehicles travel the longest distances and have the highest rates of fuel consumption.

Second, and of still greater importance, over the program period as a whole the continuance of present tax policies will provide the Province and the municipalities with more than sufficient funds to meet their combined highway, road and street needs.

These needs were estimated by the Department of Highways in December 1958 at $7.1 billion. Adding $0.1 billion for Department of Transport expenditures produces a total of $7.2 billion. To meet this, the Provincial Government alone will receive $6.8 billion from permit and licence fees, Federal Government payments for the Trans-Canada Highway ($67 million to the end of 1963), and the taxes on gasoline, diesel fuel and aviation gasoline. (We have included an estimated revenue of some $26 million for the last item, because in our view it should be set against the cost of providing highway access to airports.)

In addition to the sum of $6.8 billion which the Government of Ontario will receive, we estimate (on the basis of their past outlays) that the municipalities will be able to make available from their own tax revenues some $2.2 billion for road purposes. This makes a grand total revenue (Provincial and municipal) of $9.0 billion, which exceeds total anticipated expenditure ($7.2 billion) by no less than $1.8 billion.

Even if it were assumed that the municipalities could pay from their own pockets only $1.1 billion (half the amount previously included), there would still be a combined revenue surplus of more than $700 million. And here we would point out once more that careful re-examination of the highway needs figure of $7.1 billion may well show that it is an overestimate.

In view of this very favourable long-term outlook, it is only common justice that the Government meet any temporary financing difficulties it may encounter, either from general revenue or the proceeds of bond issues, or from a combination of both.

We are aware that, when used without discretion, bond financing has certain disadvantages. For this reason, we do not suggest that it become a permanent feature of highway financing in Ontario--only that, if necessary, some use be made of it. The total bond issue required would in any event be relatively small and could be liquidated within the program period from the highway revenue surpluses which will develop.

To raise motor vehicle taxes, in order to finance the concentration of heavy capital outlays in the first phase of the program, would be to ignore two important facts.

The first is that the degree of highway modernization presently required in this Province is quite unique. It is the result of serious underinvestment

in highways during two almost successive periods: the Great Depression of the 1930's and the Second World War.

The second fact is that the exceptional outlays referred to will create numerous assets of either long or permanent life, which will meet most of the Province's needs for capital investment in highways for many years to come.

DETERMINING THE MOTOR VEHICLE USERS' SHARE OF HIGHWAY COSTS

There is universal agreement that motor vehicle owners should not be called upon to pay the entire cost of highways. The latter provide benefits to three major groups; the property owner directly served, the general public and the highway user. All of these groups should share in the cost of highways.

The service of property access is provided in some degree by nearly all roads, though it is the main function of local rural roads and residential streets. The land access function varies from less than a block in congested city areas to several miles for the isolated farm.

Service to the general public covers a wide range of government and neighbourhood functions.

Ontario's highways, roads and streets fulfil the vital role of enabling the Federal, Provincial and Municipal authorities to maintain "peace, order and good government" through the speedy movement of police, troops, fire trucks, medical supplies, mail trucks and official equipment of many kinds. The importance of this function is being heavily underlined by the exercises carried out by the Emergency Measures Organization; they emphasize the essential part which would be played by road transport in bringing relief to stricken areas. Trucks made a vital "national" contribution in World War II, during the rail strike of 1950, and when major disasters occurred in various parts of the country.

The neighbourhood function of service to the general public involves those roads and streets which provide access to schools, churches, stores and shops, doctors and other family service groups.

The essential part played by highways in the education of our youth should not be overlooked.

A substantial part of Ontario's 77,000 miles of rural highways and roads exists not for the benefit of motor vehicle owners in general, but for other purposes such as to exploit the mineral or forest wealth of particular regions, attract tourists, or (because it is considered socially or politically desirable) to enable persons living in outlying areas to reach other parts of the Province without undue difficulty.

The cost of constructing and maintaining these highways cannot be justified on the basis of past or present traffic, or traffic expected in the foreseeable future. It is obviously unjust to allocate it entirely to motor vehicle users in general, the vast majority of whom reside and travel in Southern Ontario. This is a social cost, which should be borne by the community as a whole and met from the Province's general revenue.

There is increasing agreement among highway finance experts that the Earnings Credit Method provides the most valid and reliable solution to the problem of dividing highway costs between motor vehicle owners and other beneficiaries.

All recent state and Federal studies in the United States, employing the latest and most advanced techniques, have relied on this method for the final conclusion as to the relative cost responsibility of users and non-users.

In five of the six states where it has been used, the Earnings Credit Method has shown the user share to be less than 65 per cent. And this is the method which now enjoys widespread acceptance. It is highly probable that, if used in Ontario, it would place the user responsibility no higher.

This likely maximum of 65 per cent should be contrasted with the 94 per cent of total Provincial highway expenditures (including municipal subsidies and the disbursements of the Department of Highways, the Department of Transport and the Ontario Highway Transport Board) which Ontario motor vehicle owners paid over the period 1946-1960.

If the road expenditures which the municipalities made from their own tax receipts are included, the users' share was still as high as 76 per cent.

And it should be remembered that this period, 1946-1960, was the greatest roadbuilding era in the history of the Province and that it was preceded by a decade which saw a cumulative Provincial highway revenue surplus of over $20 million.

It is abundantly clear that there could be no possible justification for increasing motor vehicle tax rates. This conclusion is reinforced by the certaint that the total highway revenue from all sources available in future years will be far more than sufficient to cover Provincial and municipal needs combined.

If there is a case for any action at all, it is for a reduction in user taxes.

ALLOCATION OF THE MOTOR VEHICLE USERS SHARE

Once the share of average annual program expenditures which should be borne by motor vehicle users has been determined, there is a need to distribute this sum among the different types and weight groups of motor vehicles and trailers.

The most scientific method available for the purpose is the Incremental Cost Method. The latter recognizes that heavy vehicles bring into existence certain highway costs in addition to those required to build, administer and maintain the modern, high-speed roads needed by passenger cars and other light vehicles. These added costs, mainly extra thicknesses of road surface and base, are assigned in whole to the heavier vehicles for whose benefit they are incurred. The remaining costs are basic or joint costs, which are properly assignable to all vehicles on a vehicle or vehicle-mile basis.

We would stress, however, that use of this technique does not, in itself, guarantee valid results. There are many factors which must be given careful consideration in the course of a competent study of motor vehicle taxation. An investigation of this type must, for example, take into account all the different elements of highway construction, maintenance and administration, and segregate them into groups according to the factors that are predominant in bringing the corresponding costs into existence.

Only a relatively small part of highway costs varies with vehicle weight or size. Equity requires that some costs be allocated at an equal rate per vehicle, some on a vehicle-mile or travel basis, and others, the minority, in a way which takes account of the three factors weight, size and mileage.

Engineers long have recognized that a good road's greatest enemy is the weather.

The important effect of climatic conditions on highway design was emphasized by Thomas H. MacDonald, then Commissioner of the U.S. Bureau of Public Roads, in his testimony several years ago before the Interstate Commerce Commission (Docket 23,400). Commissioner MacDonald stated:

> "'We would not build roads much less than 7 inches at the edge and 6 inches in the center, no matter whatkind of loads we were going to carry.
>
> "'If we built thinner surfaces they would curl up like tissue paper in the rays of the sun. They would warp; the frost heave would destroy them.
>
> "'So we have a certain minimum thickness of roads that is necessary to build if there were nothing heavier than ordinary passenger cars and farm trucks to use the road, and the whole question of the heavier buses and heavier trucks therefore begins with a certain minimum thickness of road which is necessary regardless of whether they exist or not.'"

Significant though climatic effects are in some American states, they are even more important in Canada, many parts of which experience great seasonal variations in temperature and heavy annual precipitations. Taking Ontario as an example, at Armstrong in January 1961, the temperature was --43.0°F. By the following June, it had risen to 91.0°F., a variation of no less than 134°.[1] Total precipitation, rain and snow, at Timmins in the same year was 43.95 inches.[2] Even a layman knows how materials expand and contract with changes in temperature, and how heavy rains wash away soil and loose rock. Water, for example, after entering minute cracks in the roadway creates enormous pressure when it freezes, and splits or breaks the surface. The destructive influence of temperature variations and precipitations of the magnitude quoted for Ontario above can be easily appreciated; and they are by no means isolated examples.

Further authoritative corroboration of the powerful effects of climate on highways in Canada was provided in August 1962 by Mr. E. B. Wilkins, Chairman, Special Committee on Pavement Design and Evaluation, Canadian Good Roads Association. Reporting to the International Conference on the Structural Design of Asphalt Pavements, held at the University of Michigan, he stated that the project Pavement Evaluation Studies in Canada, carried out by his Committee, had led among others to the following conclusions:

> "1) Very significant losses in the Present Performance Rating of flexible pavements occur each year irrespective of the total pavement strength or traffic loading. (Underlining supplied.)
>
> .....
>
> "3) The annual loss in Present Performance Rating for flexible pavements can vary from year to year. These performance rating losses may be related to annual strength changes, frost action, and to annual variations in precipitation and freezing conditions."

Before proper allowance can be made for the weight factor, we must have accurate knowledge of the effect of varying repetitions of different vehicle weights, gross or axle, on pavement and structures. Only very recently have equations describing this relationship, obtained from the AASHO Road Test, been released by the U.S. Highway Research Board. They have not yet been verified and are still the subject of controversy. Even more important, the Board has strongly emphasized that they are valid only for the conditions, including subsoil, materials used, climate, which existed prior to and during the Test at Ottawa, Illinois. Before any jurisdiction can make justifiable use of the AASHO equations, it must carry out tests to discover in what ways and to what extent they must be modified, so as to take account of particular local conditions of subsoil, climate, etc. To our knowledge, no such supplementary tests have been conducted to date in Ontario.

[1] Ontario Dept. of Agriculture, Agricultural Statistics for Ontario, Year 1961, p. 113.

[2] Same reference, p. 116.

TAX PAYMENTS BY MOTOR VEHICLE OWNERS IN GENERAL

Past Payments

During the ten years 1936-46 Ontario motor vehicle owners paid more than $20 million in excess of Provincial expenditure on highways.

According to the Department of Highways, over the period 1915-1956 they paid for practically the whole of Provincial highway expenditures, (1) although everyone with any knowledge at all of highway finance knows that at least one-third of the total should have been paid by property owners and the general public, not motor vehicle owners.

Future Payments

Important though it is to consider whether Ontario motor vehicle owners have paid enough in the past, it is even more important to assess the probable adequacy of their payments in the future, assuming a continuance of present tax rates.

This raises the difficult problem of dividing the responsibility for future program costs between (a) motor vehicle users (b) other beneficiaries of the highways. We have recommended on page 7 that in making this division the Government should place its main reliance on the Earnings Credit Method, as being the most valid and widely accepted technique.

Before converting the Earnings Credit findings to dollar amounts, it has been the accepted practice in the United States to take out certain costs not considered properly chargeable to motor vehicle users.

In the case of Ontario, which like the rest of Canada is still in a relatively early stage of economic development, there is an item in this category which is of special importance. This is the cost of "development" roads.

This problem is of tremendous importance in any consideration of the revenue-expenditure relationship. The Highways Department in its first needs study, "A Plan for Ontario Highways", showed that slightly more than 32 per cent[2] of initial construction cost for the next 20-year period will be spent in the districts located in the Precambrian Shield area, i.e. Northern Ontario. The traffic on the highways in this region was estimated as having an average daily density of only 600[3] vehicles. This compares with 2,600[4] vehicles per day in Southern Ontario.

The logical conclusion from this state of affairs is that the Northern Ontario highway system should be regarded as part of a general development policy carried out in the interests of the Province as a whole. Revenue-expenditure deficiencies thus created should be borne by the Provincial Treasury or by Federal grants.

1 D.H.O., A Plan for Ontario Highways (1956), p. 20.
2 Calculated from the table "Summary of Initial Construction Costs by District for 20-year period", A Plan for Ontario Highways, p. 57.
3 Same reference, p. 30.
4 Same reference, p. 29.

It is our recommendation that careful consideration be given to development roads of the type described above, and that their cost be deducted before the dollar amount of the motor vehicle owners' responsibility is finally established.

Does it look--from the evidence available at the moment--as if Ontario motor vehicle owners will be paying enough in the years to come?

Here again, the answer is to be found in our submission to the Minister of Highways dated February 1962 (p. 8):

> "Over the program period as a whole the continuance of present tax policies will provide the Province and the municipalities with more than sufficient funds to meet their combined highway, road and street needs. These needs were estimated by the Department of Highways in December 1958 at $7.1 billion. Adding $0.1 billion for Department of Transport expenditures produces a total of $7.2 billion. To meet this, the Provincial Government alone will receive $6.8 billion from permit and licence fees, Federal Government payments for the Trans-Canada Highway ($67 million to the end of 1963), and the taxes on gasoline, diesel fuel and aviation gasoline. (We have included an estimated revenue of some $26 million for the last item, because in our view it should be set against the cost of providing highway access to airports.) In addition to the sum of $6.8 billion which the Government of Ontario will receive, we estimate (on the basis of their past outlays) that the municipalities will be able to make available from their own tax revenues some $2.2 billion for road purposes. This makes a grand total revenue Provincial and municipal) of $9.0 billion, which exceeds total anticipated expenditure ($7.2 billion) by no less than $1.8 billion. Even if it were assumed that the municipalities could pay from their own pockets only $1.1 billion (half the amount previously included), there would still be a combined revenue surplus of more than $700 million. And here we would point out once more that careful re-examination of the highway needs figure of $7.1 billion may well show that it is an overestimate."

From the information supplied above, it is clear beyond any reasonable doubt that motor vehicle owners have not only paid enough in the past, but that -- if present tax rates are continued -- they will be paying more than their fair share in the future, towards the cost of Ontario's highways.

TAX PAYMENTS BY HEAVY TRUCK OWNERS

From time to time, it is alleged that heavy trucks are not paying their fair share of highway costs in Ontario. But NO PROOF is given that they are using "publicly-provided rights of way" without paying their "full related costs." As will be shown later, there are several reasons why such proof cannot be given at the present time.

No one denies that heavy wheel loads are more harmful to pavement than light wheel loads, but the vital question is: how much more damage do they cause? Critics of the trucking industry do not attempt to answer this question for a very good reason. As yet, neither they nor anyone else knows the relationship between wheel loads (or axle loads) and damage to pavement. It was the lack of this information which led to the $27 million AASHO Road Test, the results of which are still the subject of much discussion and argument. Until the resultant formulae have been tested -- and also modified to take account of the varying soil, climatic and other conditions found in different jurisdictions -- no one can possibly say what the tax contributions of various vehicle types should be. Therefore, statements that a particular type of vehicle is paying too much or too little have no scientific foundation.

Fuel Taxes

Again, critics of the trucking industry say that the incidence of the gasoline tax is "highly discriminatory" as between vehicles of different sizes and weights.

One justification given for this view is that:

> "As the weight of the vehicle increases beyond a certain point the proportionate amount of gas consumed in relation to weight carried per mile decreases, so that in effect the heavier vehicles receive greater highway benefits per unit of tax." From this, the conclusion is drawn that "continued use of the gasoline tax as the principal component of the highway user tax bill simply means that heavy trucks fail to pay their equitable share of highway costs; and that passenger cars and other light vehicles have to make up the deficit." (1)

The fallacy of this argument can easily be shown.

In the first place, it refers to "benefits", whereas those who make use of it also voice support for "the principle of a scientific cost responsibility for each weight group of vehicles." There is no logic in speaking of the "benefits" or advantages which heavy vehicles derive from their use of the highways and which cannot possibly be measured, while at the same time espousing a fundamentally different method of tax allocation based on costs caused.

Almost every expert agrees nowadays that the last approach, the Incremental Cost Method, is - at least in the present state of knowledge - far more logical

(1) Railway Association of Canada, Relative Payments for Highway Use (Dec. 1961), p.7

and equitable than the nebulous "benefit" approach. This being so, what has the fact that the fuel consumption of trucks per mile does not rise at the same rate as their gross weight got to do with their relative cost responsibilities?

The incorrect argument referred to depends on the hidden assumption that all the various COSTS for which a vehicle is responsible rise in exactly the same proportion as its GROSS WEIGHT. This assumption has no scientific foundation. None of the experts connected with the AASHO Road Test would support it for a moment. For one thing, it ignores the crucial fact that by far the greater part of highway costs -- including expenses of administration and enforcement, and costs due to climatic effects -- do NOT vary with vehicle weight or size. Many of these non-weight/size costs result from the sheer volume of traffic, to which passenger cars contribute the lion's share.

The need for modernizing highway, road and street systems is largely due to the huge increase in the number of passenger cars, whose owners demand freedom from the congestion caused by other passenger cars and the ability to travel with greater speed, comfort and safety. These are the demands which have led to multi-lane facilities, greater road widths and high speed alignments far beyond the requirements of commercial vehicles. In fact, during the peak traffic hours for which highways must be designed the percentage of heavy trucks is but a small fraction of their average volume, whereas the number of passenger cars greatly exceeds their average volume.

Dramatic proof of the accuracy of this statement was given by the Department of Highways in its 1956 study, A Plan for Ontario's Highways. On page 13, the Department stated:

> "To give one example: on Sunday, July 10th, 1955, between 8 p.m. and midnight, only 720 motor vehicles travelled northwards on Highway 400 from Toronto towards Barrie, but 12 times as many vehicles, a total of 8,700 travelled in the opposite direction. This is in marked contrast to the general experience on most other routes where the peak volume of traffic going one way is usually not more than twice as high as that in the opposite direction.
>
> "Such situations are by no means restricted to Highway 400 but can be observed on routes near all larger cities in Ontario. This poses particularly difficult problems for the highway planner, for the high volume of traffic crowded into a few hours a week makes it essential that recreational roads be designed to the highest standards." (Underlining supplied)

Another error frequently committed by those who allege that the fuel taxes discriminate in favour of heavy vehicles is to make invalid use of the ton-mile unit. The fatal defect of the ton-mile unit for comparing the tax payments of heavy and light vehicles is that it is not homogeneous. Even a layman can see that 1,000 ton-miles performed by a 20-ton truck is a very different thing from 1,000 ton-miles performed by a 2-ton passenger car. In the first case,

it is the product of 20 tons and 50 miles; in the second case, it is the product of 2 tons and 500 miles. There is no scientific validity whatever in the assertion that the costs caused by these two vehicles are the same and that they should therefore make the same tax payment per 1,000 ton-miles. This fact was stated with unmistakable clarity by the former Commissioner Thomas H. MacDonald of the U.S. Bureau of Public Roads. In testimony before the United States Senate in 1950, the Commissioner completely repudiated the ton-mile approach in the following language:

> "The assertion that the product of weight of vehicles and distance travelled is a reasonable measure of the value of service is apparently accepted by the advocates of the ton-mile theory, without the presentation or analysis of any data to support the statement. When, however, we run the gamut from the lightest passenger car to the heaviest tractor-trailer combination, we can find no reason to say that, for these various types and sizes of vehicles, the value received from the use of the highways is proportional to their weight... There can be no pretense that the gross ton-mile analysis produces an accurate appraisal of the costs occasioned by vehicles of different sizes and weights." (Underlining supplied.)

License Fees

In this connection, the Railway Association of Canada stated:

"These studies have similarly found license fees to be an unreliable measure of highway use...a motor vehicle having a maximum gross weight of 40,000 pounds, licensed at $400 per year, would pay 1.6¢ a vehicle mile if operated 25,000 miles a year, but only 0.4¢ if operated 100,000 miles annually. This sharply tapering effect, favouring the heavy mileage vehicles, is an inherent weakness in the application of the license fees to vehicles of similar weight but different highway utilization."

This statement makes little sense, when viewed in the light of present day efforts to allocate the responsibility for highway costs in a scientific manner.

First, it ignores one of the functions of the fixed fee, which is to serve as a "standby charge". It assumes that there are no costs which are independent of vehicle travel. There are, in fact, many costs, such as the cost of issuing licenses, which are the equal responsibility of all vehicles, regardless of the mileages they travel. Some highway expenditures are related to "readiness to serve", rather than to actual usage. For example, a certain minimum standard of highway would have to be built and maintained even if there were only very light traffic.

Second, the statement in question takes no account of the fact that not less th an three-quarters of the Province's revenue from motor vehicles comes from gasoline and diesel fuel taxes. Under these taxes, the vehicle of 40,000 pounds gross which travels only 25,000 miles a year pays far less total tax than another vehicle of the same weight whose annual mileage is 100,000 miles.

This brings us to the second function of the fixed fee, which is to "take up the slack", if any, in the fuel taxes.

An im portant point not mentioned by those who condemn the motor vehicle tax structure to be found in the vast majority of provinces and states is that no government can possibly have a perfectly equitable system of motor vehicle taxes, unless it is prepared to incur crippling administrative expenses -- all out of proportion to any gain in equity. It simply has to base its tax rates on "averages", even though some vehicles will be above average and others below. To judge its equity, a motor vehicle tax system must be considered as a whole; payments through all forms of tax must be taken into account at the same time. There is neither rhyme nor reason in taking it apart and assessing each tax form separately. This is an obvious example of "The sum of the parts does not equal the whole."

What can be said in summary about the statement that heavy motor vehicles are not paying enough in Ontario?

The first point to emphasize is that it is based on incorrect arguments whose lack of validity has been demonstrated above. The second is that these arguments deal with only a small fraction of the many factors which bear on motor vehicle taxation. There is no need to re-enumerate these factors: they have already been discussed. But one fact is certain: the results of a thorough study of highway finance in this Province have not yet been made available. Therefore, every statement and innuendo to the effect that heavy trucks are not paying their fair share has NO SCIENTIFIC VALIDITY.

False Comparisons Between Different Jurisdictions

All too frequently, erroneous comparisons are made between the motor vehicle taxes paid by certain vehicles in one province or state and those paid by similar vehicles in other jurisdictions. For this purpose, invalid use has been made in particular of the Final Report of the Highway Cost Allocation Study (Section 210, 1956 Highway Act), submitted to Congress by the U.S. Bureau of Public Roads in January 1961.

Comparison of the findings of the Cost Allocation Study with tax payments in Ontario is as invalid as any comparison of entirely dissimilar things. The fallacy is compounded by either ignorance or careless use of the information available.

First, these responsibilities are for the largest highway program in history, largely directed towards providing sufficient user taxes to complete the tremendous Interstate System of 41,000 miles to the highest modern standards by 1972, while still maintaining a high rate of progress on other systems. Any tax program must be predicated upon the amount of money needed for a definite period of time. If the total required is low, then the responsibility is low -- in other words, responsibilities for programs of different magnitude cannot be compared.

Second, responsibilities are related to the unit costs of providing facilities.

In the Cost Allocation Study, these are an average for the entire United States. In some states they greatly exceed those in others with the result that, to all intents and purposes, traffic in some states is subsidizing that in others.

It would be a highly improbable coincidence if conditions in Ontario were the same as the U.S. average, or even if they were the same as for any one of the states. In very few, if any, of the American states can an equivalent be found to the fundamental economic and geographic differences which exist between Northern and Southern Ontario.

In this Province, as noted before, a large proportion of total highway expenditures is, and will be, spent on northern highways where relatively small traffic volumes are the rule.

The majority of motor vehicles, especially trucks, will never use this part of the system. This is particularly true of vehicles operated under The Public Commercial Vehicles Act, most of which are prohibited from operating north of North Bay. Therefore, very little or none of the cost of these highways can fairly be allocated to users in Southern Ontario.

Third, user taxes paid to the states were developed by each of the states separately and are related to the needs of each state. Differences in those needs, volumes of traffic, costs of construction, and other factors result in wide variations in the level of state taxes. Here again, any resemblance to conditions in Ontario would be a pure and meaningless coincidence.

The Bureau of Public Roads, which conducted the federal study, has warned strongly against taking its findings out of context and ignoring the heavy qualifications to which they are subject. Thus on pages 3 & 4 of the Final Report it is explicitly stated:

> "It should be emphasized that the section 210 study was a research project, and that this is a research report. Its objective is to provide Congress with information that will assist it in making, if needed, an equitable revision of the provisions for tax support of the Federal-aid highway program. The Congress and the executive branch of the Federal Government must view the country's highway problem as a whole and make national determinations of the assignment of cost responsibility. Being subject to these limitations, the report does not contain any statements or recommendations regarding Federal fiscal policy relating to highways."
> (Underlining supplied.)

Again, on page 4 of the same document appears the caution:

> "No attempt has been made to provide information relating to the division of responsibility among different levels of government. It is abundantly clear that no final judgment on the equity of highway taxes at the Federal or State level is feasible without giving adequate consideration to the whole burden imposed by the two principal collectors of user taxes."

The only fair way of comparing road user charges paid by U.S. and Ontario vehicles is to compare them on the same basis -- that is, to compare the motor vehicle taxes paid to the average state government with those paid to the provincial government in Ontario. This has been done in the table appended. It will be seen that in the case of private trucks, Ontario taxes are from a fifth to a half higher than the corresponding average U.S. taxes. The discrepancy is even more marked with public commercial vehicles, where the extra payment ranges from more than a third to over 55 per cent.

THIRD STRUCTURE TAXES

P.C.V. Fees

The modern concept of highways is that they should as far as possible be provided and financed as an economic enterprise, like public utilities. One aspect of this concept is the attempt, through use of the Incremental Cost Method, to base highway user charges solely on costs caused.

When, however, we look at the system of motor vehicle taxes in Ontario, we find that it contains a "third structure" tax -- public commercial vehicle fees -- which cannot be justified on the basis of costs caused. On the rare occasions when an explanation of this additional levy has been given, it has been said that it is justified because of the special "benefits" or "privileges" enjoyed by for-hire carriers. What has not so far been realized is that if highway users are to be charged -- to the full extent of their responsibility -- for the costs they cause, they cannot at the same time fairly be subjected to additional taxes on the ground of alleged special "benefits". The two concepts of costs and benefits are in direct conflict.

As regards the "benefit" approach, it is sufficient to say that at the present time it is not highly favoured by most highway finance experts, mainly because no method of accurately measuring highway benefits has so far been found.

When public commercial vehicle fees were introduced, the provision of highways was still regarded mainly as a general function of government, in the same way as education and health services; little or no attempt was made to relate user charges to cost responsibility. This view is now outmoded and undesirable. We therefore urge strongly that the Government abolish this third-structure P.C.V. tax.

In making this recommendation, we would stress that public commercial vehicle owners have no wish to reduce the amount of motor vehicle taxes they pay, simply in order to lower their costs of operation and increase their profits. On the contrary, they are ready and willing to pay their full share of highway costs, which they are convinced they are already doing. In accordance, however, with the modern concept of highways referred to above, they see no valid reason why an operator who carries freight for compensation should pay higher taxes than a private carrier who makes exactly the same physical use of the highways and is responsible for the identical amount of highway costs.

We would further point out that the present third-structure tax on freight vehicles discriminates unfairly against the small shipper. Because he cannot afford his own fleet, he must hire the services of P.C.V. operators, whose charges inevitably include the additional motor vehicle taxes they are called on to pay.

The injustice of levying additional taxes on P.C.V. operators, simply for the purpose of obtaining more revenue, was stated as far back as 1938 by the Chevrier Royal Commission on Transportation in Ontario. It said:

> "(1) Unfair Results of the Present P.C.V. Licence System. The Commission is convinced that the complaints of the public commercial vehicle operators, and particularly of those with Class "A" licences, that they should not be charged fees very much in excess of those paid by private carriers is justified. No regulations with respect of the filing of tariffs and the policing of them having been promulgated, there has been no reason for the inclusion of any sum in the licence fee for public commercial vehicles to cover this service. Moreover, the great disparity between the fees required of public commercial vehicles and of freight vehicles not operating for hire places the public commercial vehicle operators under the constant fear of losing their business through the customer placing his own trucks on the road, for which he would pay lower licence fees. (Art. 7.15) Further, the obligation of common carriers to provide service offsets to a very large extent the value of the special privileges that they may enjoy." [1]

The inequity of the current P.C.V. fees was also acknowledged by the Select Committee of the Ontario Legislature on Toll Roads and Highway Financing. In its final report, issued in 1957, the Committee urged that remedial action be taken as follows:

> "2. THE COMMITTEE RECOMMENDS THAT THE PUBLIC COMMERCIAL VEHICLE LICENCE FEES BE ADJUSTED TO COVER FIRST THE COSTS OF ADMINISTRATION AND ENFORCEMENT OF THE PUBLIC COMMERCIAL VEHICLES ACT, WITH THE ADJUSTMENT THUS OBTAINED TRANSFERRED TO THE REGISTRATION FEE FOR THE WEIGHT GROUP.
>
> This means that public commercial vehicles and private carriers will pay equal registration fees and the public commercial vehicles will pay an additional amount to cover the extra costs involved in administering and enforcing the Public Commercial Vehicles Act. The result would be to place public carriers on an equal footing with private carriers." [2]

Weight Distance Taxes

Attempts have been made to identify the allocation of highway costs among different types of vehicles with the collection of these costs, once they have been allocated.

A number of methods are available for allocating highway costs, such as the incremental cost, gross ton-mile and cost function methods. But they have nothing to do with the various ways in which assigned costs can be collected -- as through permit fees, licence fees, fuel taxes, etc.

Once a government has determined, after using one or more of the allocation techniques which are available, how much per year a particular class and weight group of vehicles should pay for its use of the highways, it is still perfectly

[1] Report of the Royal Commission on Transportation, Province of Ontario (1938), p.14
[2] Report of the Select Committee on Toll Roads and Highway Financing (1957), p.38

free to determine how this amount is to be collected. For collection purposes, it can levy any one (or a combination) of several different forms of motor vehicle taxes, of which the most important are permit fees and fuel taxes.

As we shall see later, there are good reasons why it should NOT use any form of third-structure weight-distance tax.

Supporters of this form of tax have alleged that payment on the basis of "How much does it weigh - how far does it go?" is a basic principle in various segments of our economy and the foundation of transportation rate-making. This is completely erroneous. The implication that carriers charge a uniform rate per unit of weight for each mile of travel is obviously false. The fact is that while weight and distance are used in rate-making, they are only two of a great number of factors which influence freight rates. Some of the more important factors are value and density of the commodity, volume of traffic and the extent of competition. Everyone is familiar with the fact that rates on small shipments, less-than-truckload or less-than-carload, are considerably higher for the same commodities between the same points than the rates on large shipments, truckload or carload. Rates are also generally higher for light and bulky articles than for heavier items carried between the same points. Even the railways charge less per mile as mileage increases, have a lower rate per mile as weight increases, have different rates for different commodities, different rates for the same service in different areas, etc., etc. If the criteria used by carriers when making rates are to be accepted as the proper method of allocating highway costs, there will have to be a complete revision of our tax system to take account of the economies resulting from high-volume and long-distance movements, as compared with low-volume and short-distance movements.

Despite their strenuous efforts to gloss over difficulties and "sell" the weight-distance tax, its advocates have never yet given a convincing answer to the main criticisms of this form of tax. These are:

(1) it is costly to collect; (2) it is a constant source of irritation and worry for government administrators; (3) any inequity which it removes tends to be more than outweighed by the new inequity it creates as a result of tax evasion; (4) it involves motor carriers in heavy compliance costs, often considerably greater than the tax payments themselves; (5) it tends to destroy respect and support for the government from carriers, shippers and -- eventually -- the consuming public, as the cost-raising and nuisance effects of the tax are felt in an ever-widening circle.

Defects (1) and (3) were stressed by the Minnesota Legislative Research Committee in its 1948 report on operation of the state's special mileage tax on interstate "for-hire" and private motor carriers of property, which had been in force since 1936. The Committee stated:

> "Administration of the mileage tax has encountered difficulties in both cost and effectiveness of enforcement.
>
> "There are other considerations of equity, perhaps not so basic, which arise in the administration of the law. Because the

> nature of the tax makes enforcement both difficult and expensive, both intentional and unintentional evasion does exist. Thus the tax tends to penalize large carriers who are reached because of their conspicuous position, and all carriers, whether large or small, who file accurate reports."

In 1949, Minnesota repealed its mileage tax. As will be seen later, this is far from being an isolated example.

Further to the question of collection costs, Mr. A.=G. MacNab, then Registrar of Motor Vehicles, Ontario Department of Highways, informed the Toll Roads Committee that a staff of 322 persons was needed in New York State to administer the weight-distance tax there. This did not include the weighing stations.[1] Yet with all this personnel working on collection and administration, only $15 million were collected through the tax.[2]

What is the situation in Oregon, the prime example of a 'successful' weight-distance tax state, where -- if one believes the claims of the officials concerned -- administration and enforcement have been reduced to almost a fine art?

The Toll Roads Report (p. 39) quotes Mr. George Gathercole, at that time Deputy Minister of Economics, as stating in a letter to the Committee (dated November 24, 1956) that there was a ".....3.88 per cent cost of collecting and auditing the weight-mile tax in Oregon....." It is regrettable that the Committee, whilst giving prominence to the 3.88 per cent figure, did not show in its report further evidence by Mr. Gathercole in which he elaborated on this point. Mr. Gathercole stated:

> "No doubt the cost of collecting the (Oregon) tax, if you were to add the weighing into the cost of collecting and auditing, would run up to perhaps 8 per cent, which would be an extremely costly tax to collect." (Proceedings, p. 3260)

It is also to be regretted that the Committee omitted from its report further, more detailed evidence on this point by Mr. P.T. Clark, former Comptroller of Revenue, Treasury Department, who stated:

> "All that goes into the State Highway Fund is 92.52 per cent of the amount which was collected.
>
> "Then there are shown the percentages of various costs:
>
> | | |
> |---|---|
> | Administrative expenses | .9 per cent |
> | Auditing and collecting | 3.06 per cent |
> | Machine records | 1.04 per cent |
> | Examiners | .45 per cent |
> | Permits | 1.80 per cent |
> | and then something called Rates and tariffs | .22 per cent |

[1] Toll Roads Committee, Proceedings, November 27, 1956, p. 3541
[2] Statement by Mr. P.T. Clark, Comptroller of Revenue, Proceedings, p. 3532

> In other words, the various costs total 7.48 per cent[1] of the total receipts of weight-mile taxes.
>
> "All that is included in the 3.88 per cent were administrative-cashier; field auditing; certain accounting and collection costs, machine recording and issuance of permits." (Proceedings, pp. 3529-30)

Regarding staff requirements, Mr. Clark said:

> ".....the report of the Western Highway Institute.....shows the personnel of the Oregon State system of motor vehicle tax as a staff of 202.
>
> "It would seem to me if we were going to put in a weight-mile tax in this province, we would need more than 202 people. If it takes 202 people to do the job in Oregon, certainly the cost of raising about $13 million is very close to $1 million, and if we put in a commensurate tax, exactly the same, here, from the studies I have made of it, we would not receive any more than $13 million, and it would cost us a great deal more, I think, to collect it, because our area is much greater." (Proceedings, Select Committee, November 27, 1956, p. 3531)

Later he added:

> "I do not mind saying I think it is a very expensive tax, and a very difficult tax to administer. I have said that before." (Proceedings, Select Committee, November 27, 1956, p. 3541)

On the question of evasion, Mr. Clark said that the Oregon authorities used the so-called "observation reports" for enforcement purposes. These were report cards, he said, which were filled in by the State Police and by field employees of the Public Utilities Commission, without the vehicle operators thus reported being aware of it. Mr. Clark concluded:

> "This card is a 'Gestapo' sort of thing, and I cannot help but have some strong objections to such an idea for keeping evasions down." (Proceedings, Select Committee, November 27, 1956)

It is unfortunate that the Toll Roads Committee in its final report did not draw more attention to these enforcement aspects and other serious administrative difficulties arising from weight distance taxes. Mr. Charles F. Conlon[2] in evidence before the Committee, took the position that administrative difficulties are not very important. However, strong testimony to the contrary was given by Mr. George Gathercole, whose views -- being those of a senior official with practical experience of government -- should be given the greater weight. Mr. Gathercole stated:

> "The consideration of a weight-mile tax for Ontario must take into account far more than the different conditions existing in

[1] Mr. Clark later added that the 7.48 per cent did not even include the cost of weighing stations. (Proceedings, p. 3539)
(NOTE: The corresponding figure for the calendar year 1956 was 8.88 per cent.)

[2] Executive Secretary, National Association of Tax Administrators, Chicago.

> Ontario and in Oregon. Account must be taken of administrative and collection problems, the degree of evasion of the tax and the cost of tax compliance.
>
> "However sound the weight-mile tax is in principle, it is not a large source of revenue in any of the American States in which it is used, and consideration would have to be given to whether the additional revenue obtained from it in Ontario would justify the adoption of a new tax. Additional study is required on all these questions. Furthermore, a well-developed weighing system is an essential prerequisite of a weight-mile tax."
> (Proceedings, Select Committee, November 15, 1956, p. 3244)
>
> "Our system of motor-vehicle license fees, which are higher on these heavier vehicles, may be accepted as effecting a rough measure of equity under conditions where the adoption of the weight-mile tax, and the third-structure system would be so complex and difficult that it would not be practical to go into it.
>
> "At present Ontario has not the administrative staff to do it. Accountants and qualified people today are very scarce. That is one of the problems. It is also one of the inevitable difficulties met in setting up an effective system of weighing stations -- the shortage of staff. These are practical problems, to which anyone in a ministerial or administrative position must give consideration."
> (Proceedings, p. 3291)

What is the origin of weight-distance taxes? Mr. Conlon, an ardent supporter of this type of tax, related their history in the following way:

> "I will tell you what happened. The railways in the early 1930's backed the imposition of special taxes on trucks with the result that a ton-mile tax was adopted practically overnight in nine States in 1933. There was no particular public demand for or approval of the tax, and I think it is a fair statement that the program was a lobby proposition."
> (Proceedings, pp. 3673-4)

To this day, the railways have remained the principal -- in fact, almost the sole -- advocates of weight-distance taxes.

Another aspect of the question is that a weight-distance tax would discourage Ontario's economic progress. A good tax encourages the most efficient utilization of the highway plant, for instance by choice of alternative routings to avoid congestion. Under a weight-distance tax regime, where distance travelled would be taxed, the shortest route would be chosen, even if this aggravated the congestion.

The long-term effects of the tax on the opening-up of the Province would be far more serious again. It must be remembered that three out of every five

communities in Ontario are wholly dependent on truck transportation. Because they would be placed at a competitive disadvantage, owners of plants in these outlying communities would be driven to move in close to markets or supply centres. This would reduce employment opportunities for local residents. The rise in rural living costs would further discourage settlement outside the main population centres. Another unfavourable result would be the depressing effect on agriculture of the increased cost of transporting farm produce to markets -- almost 100 per cent of Ontario's farm products is marketed by truck.

A weight-distance tax such as that advocated by the Railway Association of Canada would be a new tax in this Province and cause serious dislocations, disruptions and costs of adjustment. A great additional strain would be imposed on the enforcement agency, presumably the Department of Transport. Surely, with the urgent need for economy in government operations, better use could be made of existing staff than to experiment with a labour-consuming tax which has such a black administrative record.

The Toll Roads Committee seems to have regarded the weight-distance tax as a lucrative source of additional revenue. But there are three reasons why this would certainly not be the case.

First, it could be applied only to medium and heavy trucks -- for instance, 9 tons gross and over. Collection costs, if it were levied on the many thousands of trucks below this weight, operating all over the map, would be simply fantastic.

Second, by its nature it could be applied only to the relatively small proportion of total highway expenditure which is related to both weight and distance travelled. (On March 12, 1958 the Hon. James N. Allan, then Minister of Highways, said: "About 20 per cent of the cost of the highway is due to the heavy loads that go over that highway.") What is more, the tax could be used to recoup only the trivial part (if any) of this 20 per cent which is not already recovered through fuel taxes and the steeply graduated licence fees based on gross weight, which together take full account of the distance and weight factors.

Third, from any additional revenue offered by a new, third-structure weight-distance tax (for P.C.V. operators, it would be a fourth-structure tax) would have to be deducted the revenue loss from reductions in permit and P.C.V. licence fees. If any pretence were made to preserve equity in motor vehicle taxation -- and the supposed greater equity of the third-structure weight-distance tax is alleged to be the main reason for introducing it -- then these reductions in permit and P.C.V. fees would be essential, because, as stated earlier, their steeply rising graduation is intended to "take up the slack" in the fuel taxes.

The Toll Roads Committee recommended a weight-distance tax on the ground that it would promote greater equity. But that strong supporter of the tax, Mr. Charles F. Conlon, gave a rather different reason:

> "I would put it this way: perhaps themain reason why it (the weight distance tax) was started there (in the U.S.A.) was to secure a better distribution amongst all the elements which

composed the motor vehicle in the States.

> "I think that the reason that today the tax is receiving so much prominence has been because of the interstate problem." (Proceedings, Select Committee, pp. 3729-30, underlining supplied.)

In other words, the "vehicles-from-out-of-state" or "equity-between-states" argument is the principal cause of those third-structure weight-distance taxes, fortunately very few, which exist today. Mr. P. T. Clark, Comptroller of Revenue, formed the same opinion after field studies in the U.S.A.:

> ".....the main reason for the third-structure tax is because of the fact that trucks go across State lines down there far more than they do here." (Proceedings, p. 3561)

There is no need to expand on the great differences between Ontario -- with its vast area and intricate network of alternative routes -- and most of the American states; or upon the relevance of these differences to the weight-distance tax question. The remarks made by Messrs. Gathercole and Clark, quoted above, show that senior Ontario Government officials were only too well aware of them.

And there is another aspect, which it is well to emphasize. As all our American friends who are truly competent in highway finance matters will readily agree, and we are glad to say there are many of them, Ontario will gain nothing in stature -- but reap only trouble and disappointment -- if it snatches at every "gimmick" thought up by certain special lobby groups and political "climbers" in the United States.

We must be ready to learn from our friends to the South, but we must also be ready to stand on our own feet and think in terms of Ontario.

The third-structure weight-distance tax is alleged to be a "fair" tax, which irons out almost all inequities and does not discriminate against any group of highway users. But an element of discrimination is inherent in this type of taxation. A weight-distance tax would be levied as an additional impost on trucks moving inside the Province. Some truck operators have a choice between intra-provincial and extra-provincial routes. For example, a motor carrier operating between Toronto and Northwestern Ontario could choose between routings via Northern Ontario and via the States. An additional tax on mileage would give him a strong inducement to take the American route, leaving other operators who had no such alternative to pay "the full shot" of user taxation.

Related to the last point is the fact that if levied at rates intended to yield the Government an appreciable revenue, the tax would raise truck owners' operating costs to the point where they would considerably increase their use of railway "piggyback" services. This would greatly reduce highway revenues. It is estimated that in 1961 commercial vehicles, which represented only 15.2 per cent of all vehicles on Ontario's highways, paid over $94 million in licence and registration fees and fuel taxes, or close to 40 per cent of the total collected

by the Province from all motorists through these taxes. And $32.5 million of this revenue was contributed by owners of tractor-semitrailer combinations. The loss of a substantial part of this amount would inevitably require a marked increase in the taxes paid for passenger cars and other light vehicles.

What about the equity of our present system of motor vehicle taxation? In our preliminary submission to the Toll Roads Committee on November 2, 1956, we said there was no reason whatever to suppose that trucks were not paying their way. And what we said then is even more true today, because there is now a 40 per cent (5½¢) additional tax on diesel fuel, which, apart from a microscopic number of passenger cars, is consumed exclusively by heavy commercial vehicles.

In our 1956 submission, we stated:

> "The Dominion Bureau of Statistics' surveys show a strong correlation between vehicle weight, its mileage and ~~fule~~ fuel consumption; the progressive license fee, in fact, reflects the higher utilization of the bigger vehicle.
>
> "There are good reasons why a correlation between size and mileage should exist -- the larger the investment, the greater the incentive to obtain good utilization of equipment. Furthermore, in the interest of public economy a good utilization of capital investment is necessary -- a truck standing idle costs money, and these costs are passed on to the consumer." (Proceedings, p. 3041-2)
>
> "We submit that the steeply rising license fees reflect the greater use made of the highways by heavy vehicles. We further submit that the existing system of gasoline tax and license fees is perfectly capable of the necessary adjustment by using the cost figures obtained from engineering tests and from cost allocation studies." (Proceedings, p. 3044)

The last statement was endorsed by the then Comptroller of Revenue (Mr. P.T. Clark), who had given the whole question his serious consideration:

> "I think it is possible to make a curve of the flat rate fees, which would be an average of the tremendous amounts the trucks would pay by way of mileage tax rather than go to all the trouble of having mileage counts." (Proceedings, p. 3543-44)

Even that staunch supporter of weight-distance taxes, Mr. Conlon, admitted:

> "I think we can probably, with an appropriate series of graduations, secure a reasonable degree of equity from a series of flat fees," (Proceedings, p.3731, underlining supplied.)

What more can normal human beings expect, in this imperfect world of ours, than a "reasonable" degree of equity?

The true nature of weight-distance taxes has been summed up by a leading American transportation expert as follows:

> "A ton-mile TAX is not a revenue producer -- it is an instrument of punishment."

And it is not only the truckers who get "punished" -- the government gets the same treatment.

Last, but by no means least, what about the effect of weight-distance taxes on the attitude of shippers, consumers and truck owners towards the government?

One of the principal reasons, in addition to administrative difficulties, for the failure of weight-distance taxes in the United States and Canada was the increasing annoyance and inconvenience which they engendered.

Where they were put into effect, these taxes led to excessive paper work, cumbersome legal and enforcement procedures, including the "Gestapo" tactics of which Mr. P. T. Clark complained, waste of time, and higher operating costs which had to be passed on to the consuming public. One of the reasons for the opposition from truck owners was tersely stated by Mr. George Gathercole in his evidence before the Toll Roads Committee: "Undoubtedly it is a nuisance tax to the industry concerned." (Proceedings, p. 3261)

No doubt some will say that all we have said above is past history and that the climate of official opinion is about to change. For an indication, let us see what the motor vehicle administrators have to say, because these are the men who have to make taxes really "work." At its 1962 annual meeting, the American Association of Motor Vehicle Administrators, representing all the American states and Canadian provinces, passed a resolution opposing third-structure taxes on commercial motor vehicles. And they did so because they know that -- whether a tax of this kind took the form of a weight-mile, axle-mile or "straight" ton-mile tax -- the same almost insuperable administrative difficulties would have to be faced.

Since Oklahoma first introduced a weight distance tax in 1923, 11 states have abolished their ton-mile taxes; further, no fewer than 19 other states have rejected proposals to introduce a weight-distance tax. In Canada, Quebec abolished its ton-mile tax in 1962, after abortive efforts over many years to make it work.

Finally and perhaps most significant of all, Ontario's experience with a ton-mile tax -- levied at 1/5¢ per gross ton-mile on public commercial vehicles, as from August 1928 -- proved a short-lived fiasco. It was abolished in April 1929, and replaced by a flat annual fee, after it had been in effect for only 9 months.

Gross Receipts Tax

This form of tax is imposed on motor carriers either (1) as part of a general sales tax, or as a tax on all transportation companies or public utilities, or (2) as a motor vehicle tax proper.

In the first case, which will not be discussed here, the tax is simply a means of obtaining more "general" revenue for the state: there is no pretence that the amount of tax paid bears any logical relationship to highway operations.

In the second case, the tax is intended to be a specific charge for highway "benefits" or "use". However, the gross receipts of a private carrier represent, to a varying and indeterminate extent, customers' reimbursement of costs (such as manufacturing costs) other than those incurred in connection with highway operations. For this reason, a tax on these receipts, if intended as a motor vehicle tax, cannot logically be imposed. The result is that it is levied on for-hire carriers only. As will be shown later, this has a harmful effect on equity, as between private and public carriers.

The only argument with any semblance of logic which can be used to justify a gross receipts tax is that payments through it vary in accordance with the "benefits" which carriers derive from their use of the highways. To examine the validity of this argument, two questions must be answered. First, how acceptable is the "benefit" theory of motor vehicle taxation? Second, how closely do gross receipts reflect benefits?

As regards the first of these questions, it was stated on p. 19 of this submission, under "P.C.V. Fees", that "The modern concept of highways is that they should as far as possible be provided and financed as an economic enterprise, like public utilities." This concept has the support of most leading economists, as it is the one most likely to aid the efficient allocation of resources among the competing modes of transportation. Its application requires that motor vehicle taxes reflect to the maximum practicable extent the costs caused (not "benefits" derived) by vehicles of different types, sizes and weights.

The second question above - "How closely do gross receipts reflect benefits?" - exposes the following weakness in the benefit approach.

First, in those jurisdictions (there are none in Canada) which have introduced a gross receipts tax on for-hire carriers, no satisfactory attempt has been made to analyze and define the nature of the benefits derived from highway use. Therefore, the statement that the gross receipts tax is an equitable levy, because it is a tax on highway "benefits", contains an unwarranted assumption. There are obviously many different kinds of highway benefits and it is difficult to see how, even in theory (let alone practice), they could be evaluated in terms of a common unit for the purpose of uniform, equitable tax assessment.

Second, quite apart from the foregoing problem s of definition and measurement, there is every reason to suppose that the relationship between carriers' gross receipts and their highway "benefits" is far from constant; it must in fact vary widely between certain types of operations. This being the case, there can be little logical justification for a tax on gross receipts, levied at a single rate.

To illustrate the point, let us t ake the case of two carriers, with the same annual receipts. One of these carriers operates his vehicles mainly in an urban area, where handling and terminal charges bulk large, and transit time and

fuel consumption rates are increased by traffic congestion. Per mile travelled, his total operating expenses - which must be covered by his gross receipts - are unusually high. The other carrier operates his vehicles almost exclusively on intercity routes and has a much lower overall cost per vehicle-mile. Although the total annual mileages run by these two sets of vehicles are very different, their owners obtain the same gross receipts and are therefore required to pay the same amount of tax per year for "highway" benefits which are assumed to be equal.

Where its application is confined to motor carrier operations, the gross receipts tax is levied on for-hire carriers only, usually on both common and contract carriers of persons and property. This singling out of for-hire carriers for special, additional taxation could be justified, under the "benefit" theory of taxation, only if they received highway benefits over and above those enjoyed by other groups of users. But this is obviously not the case. There are numerous private carriers who operate larger and heavier vehicles, over longer distances, than many common carriers. Any reasonable definition of "benefit", as applied to highways, must surely take into account (among others) such factors as vehicle weight, size and annual mileage - if only because these factors are fairly closely related to freight and passenger carrying capacity. But application of a gross receipts tax to for-hire carriers alone denies the logic of this relationship.

It represents the same type of unfair discrimination as now results from the third-structure P.C.V. fees in Ontario. On this point, Lewis C. Bell, in what is probably the most authoritative study of third-structure taxes yet published, has the following to say:

> "A gross receipts tax reflects an attempt to exact a charge from highway users commensurate with the value of service received. Perhaps the greatest criticism of a gross receipts tax, however, is that it fails to exact any charge from private carriers. This may not have been a serious deficiency in the past, but with modern-day private carriers operating on a large scale, the justification for a highway-user tax on for-hire carriers without a similar tax on private carriers may no longer exist."(1)

In most states which levy a gross receipts tax, various exemptions of greater or lesser extent are granted for certain types of operations. The latter include intra-city operations, leased vehicles, express companies etc. These exemptions not only increase the costs incurred by both government and industry in complying with the law, but also have a strong tendency to create inequity within the for-hire carrier industry itself. In this connection, Bell states:

> "The various exemptions granted from a gross receipts tax, as is often the case for exemptions from any tax, are ostensibly for the purpose of achieving a greater degree of equity for all the taxpayers concerned. However, in practice these exemptions

(1) Lewis C. Bell, Third-Structure Taxes: Applicability for Kentucky (Bureau of Business Research, Univ. of Kentucky, 1956) p. 41

> may result in varying degrees of inequities. The exemptions of the California gross receipts tax afford ample illustration of this point."(1)

No attempt seems to have been made in those states which impose a gross receipts tax to determine the best rate at which the tax, given its limitations, should be levied. As explained above, it is by its nature a crude fiscal instrment. At the same time, some rates will be less inequitable than others. Discovery of one of the more acceptable rates requires that, among numerous other factors, account be taken of the estimated payments which freight and passenger carriers, both public and private, will make in the future through all currently-used forms of motor vehicle taxes. This rate cannot be decided in arbitrary, "hit and miss" fashion.

In three important respects, the gross receipts tax closely resembles weight-distance taxes: it is expensive to administer, imposes relatively heavy compliance costs on carriers, and is not a large revenue-producer.

High administration costs are due to several causes. Operators subject to the tax are usually required to submit monthly reports containing (1) a breakdown of receipts into (a) business which both began and ended within the taxing jurisdiction (b) all business passing through, into or out of the state; (2) other items such as total mileage and the total number of vehicles operated within the jurisdiction.

The government agency concerned must verify the accuracy of these reports; the longer the list of exemptions, the more difficult the task. Where the tax has been underpaid, the deficiency must be determined and the carrier advised accordingly. A check must also be made to ensure that all required reports have been received; where some are missing without good cause, penalties have to be assessed for non-compliance. Again, legal problems arise in connection with the correct distinction between "exempt" and "non-exempt" operations: for example, between out-of-state and intra-state movements. It will be noted that these tasks not only create administrative costs for the government, but also - in most instances - impose compliance costs on carriers.

Another important cause of high administration costs is enforcement "in the field." This includes such functions as auditing carriers' records, checking vehicles on the highways. Some of the difficulties involved are indicated by Lewis C. Bell as follows:

> "In Arizona, the collection of the gross receipts tax is handled by the Highway Department. The department very recently has acquired additional employees in an effort to achieve more complete collection of the tax and especially to control "wildcatting." This illegal operation enables many carriers to evade the tax. In addition, more effective enforcement is needed to prevent what is considered as a "fictitious" operation by commercial haulers as lessors to private carriers."(2)

(1) Same reference, p. 38
(2) Same reference, p. 29

The revenue from a gross receipts tax depends mainly on the rate at which it is levied, the number and types of vehicles covered, and the effectiveness of enforcement. Like weight-distance taxes, however, it has never in any jurisdiction yielded anything more than a small proportion (7 per cent at the most) of the total revenue from highway-user taxes.

To summarize, the justification advanced for a gross receipts tax is that it increases equity among motor vehicle users as a whole. But there are two sets of reasons why it cannot do this. In the first place, the logic of the tax is defective: it is based on the unsatisfactory "benefit" theory and no significant relationship exists between gross receipts and benefits. In the second place, it produces inequity in practice, due to the granting of exemptions for political and other reasons, and to the difficulty of achieving proper enforcement. To this failure to bring about an increase in equity must be added the drawbacks that it is expensive to administer, imposes heavy compliance costs on carriers and produces relatively little revenue.

THE EFFECTS OF MOTOR VEHICLE TAX CHANGES ON INDUSTRY AND COMMERCE

Although tax rates may be either raised or lowered, they are in fact rarely reduced. In what follows, therefore, we shall deal only with the case where they are raised. We would re-emphasize, however, that there would be absolutely no justification for an increase in motor vehicle tax rates, either now or in the foreseeable future.

Broadly, it may be said that any tax change which is economically justifiable from the standpoint of commercial motor vehicle owners will be of benefit to industry, commerce and the community in general. According to the purposes for which they are made, at least three types of tax increases may be distinguished.

First, a selective increase may be made in the tax rate paid by a particular type of vehicle, because it is decided -- after careful determination of its cost responsibility and comparison of this responsibility with its revenue contribution -- that the rate is too low. There can be no reasonable objection to such a change, which will produce greater equity between vehicles of different types and weight groups.

Second, motor vehicle tax rates generally may be raised to pay for highway improvements. Provided the burden imposed by this extra taxation is more than offset by a reduction in operating costs and/or an increase in travelling safety and convenience, motor vehicle owners will derive a net benefit. We would emphasize, however, that there is no case for a tax increase on this ground, because the payments which will be made by motor vehicle and property owners over the D.H.O. program period (1958-1977) will exceed total "needs", both Provincial and Municipal, by not less than $1.8 billion.

Third, motor vehicle tax rates may be raised simply to provide the Province with additional revenue to meet the increased cost of (say) education and health services. This type of tax change, whose object is the "diversion" of highway revenue, cannot be too strongly condemned. In the first place, it is unjust, because a particular segment of the population -- motor vehicle owners -- is singled out to pay part of the cost of services which will be enjoyed by the community as a whole, including those who are not motor vehicle owners. In the second place, it places motor vehicle operators -- in particular, truck owners -- at an unfair disadvantage in their competition with other forms of transportation and thus tends to disrupt the Province's economy. The worst form of diversion occurs where motor vehicle owners' tax payments are used, directly or indirectly, to meet the cost of other modes of transportation.

We estimate that motor vehicle tax payments form an average of nine per cent of the total annual business costs of "for-hire" carriers. From this, a casual observer might gain the mistaken impression that even a fairly substantial increase in motor vehicle taxes would not have a major effect on these operators. There are, however, several reasons which are especially strong at the present time, why such an increase would in all likelihood have a disastrous effect on the profitability -- and hence on the power to survive -- of "for-hire" freight carriers. One of the main reasons is to be found in the huge

subsidies, amounting in the current fiscal year to some $110 million, now being paid by the Federal Government to the Canadian railways. As a direct result of these subsidies, the railway companies have been able to intensify their competition, in many cases by cutting their rates to levels below truck operating costs.

That "for-hire" truck owners are now operating at the extreme margin of profit is shown by two facts. During recent years, the industry has experienced an abnormally high rate of bankruptcy. Further, a survey conducted amongst our membership in 1962 revealed an average rate of profit of only about two per cent. Such a poor return offers little inducement to operators who insist on the use of sound equipment, provide a reliable service and charge rates which take full account of their long-run costs, to continue in the industry.

FEDERAL AID

The question of Federal aid for highway development in Ontario is one which requires special attention. A statement of our views on this subject appeared on Pages 38-40 of the Association's Interim Submission to the Select Committee of the Legislature on Toll Roads and is given in the Appendix to this submission. To this we would add the following comments.

It is estimated that by the time the present Trans-Canada Highway cost-sharing agreement (apart from the section relating to the Ottawa Queensway) comes to an end December 1963, this Province will have received assistance amounting to approximately $108 million. Over the 13 years of the agreement, this is an average of only just over $8 million per annum. Frankly, it is a paltry sum, which shows clearly that the Federal Government has not yet recognized the need -- from a national standpoint--for assisting the construction of other main arteries, in addition to the Trans-Canada Highway. It takes little account of the great size of the Province, the advanced stage of its economic development, or its strategic geographical position. The Federal Government can fairly be expected to make a much greater contribution from the many millions of dollars which it obtains annually from Ontario motorists through sales, excise and customs levies on motor vehicles, fuels and parts. There is even more justification for this now than when we last wrote on the subject, as federal revenues from motor vehicles and motor vehicle owners are helping meet the cost of the huge annual subsidies which the railways are receiving. The effect of these subsidies is to intensify greatly the competition which the trucking industry faces.

We urge the Committee to recommend that the Provincial Government make strong and, if necessary, repeated representations to the Government of Canada, for the purpose of obtaining increased Federal participation in the cost of providing highways of national importance in Ontario.

SUBSIDIES FOR RAPID TRANSIT AND RAIL-COMMUTER SERVICES

Viewed as a whole, Ontario's highway, road and street system is out of balance. Rural highways under the jurisdiction of the Provincial Government have been modernised at a faster pace than roads and streets which are the responsibility of junior levels of government. The D.H.O. engineering study, Ontario's Roads and Streets, stated that over the 20-year period 1958-1977 nearly two-thirds (66 per cent) of total needs would be for municipal roads and streets.

We believe the new increased subsidies will have to be paid by the Government for some years to come, if estimated municipal road needs are to be met within the program period. However, this should in no way be a problem for the Government:

Twenty-year needs for urban, county and township roads were set by the Department of Highways in 1958 at $4.7 billion. To meet this, we estimate--on the basis of their past outlays--that the municipalities will be able to provide from their own resources (excluding Provincial subsidies) $2.2 billion. This leaves a shortfall of $2.5 billion. On the other hand, the D.H.O. needs estimate for King's Highways and Secondary Roads, which are the direct responsibility of the Ontario Government, was $2.4 billion. If $0.1 billion is added to this for Department of Transport expenditures, the Provincial Government total becomes $2.5 billion. Against this, we estimate that the Government of Ontario will receive a total highway revenue of $6.8 billion, leaving a Provincial surplus of $4.3 billion. This will be far more than adequate to cover the municipal revenue deficiency of $2.5 billion.

It is important to note that the municipalities' need for subsidy assistance will decline greatly after only a few years. The relatively short catch-up period, when they will be required to make unusually heavy capital outlays, will be followed by a much longer period during which their capital outlays and total expenditures will continue steadily at a far lower and normal level.

The transfer of a higher proportion of motor vehicle tax receipts from the Province to the municipalities for some years to come creates a threat of serious injustice to truck owners, arising from the development of rapid transit and rail-commuter services. This is the threat of highway revenue diversion.

"Diversion" is a term which has at times been used ambiguously. We are aware that in a jurisdiction such as Ontario, where there is a Consolidated Revenue Fund into which are paid the receipts from all varieties of taxes, one tax dollar is indistinguishable from another. We therefore define "diversion" in the present context as the setting of motor vehicle tax rates at levels which yield a total revenue greater than motor vehicle owners' fair share of highway construction and maintenance costs, and use of the surplus revenue for non-highway purposes.

This Association is not in favour of "special fund" accounting, as is practised in some of the States. We realize that the system is rigid and inconvenient, and that in general the Government must be able to meet a temporary shortage

of revenue from one source by borrowing from another, unrelated source. Overall control of expenditures should remain in the hands of the Legislature and we are confident that on the whole it will continue to make wise decisions. There are very strong reasons, however, why the receipts from motor vehicle taxes should not be diverted in the manner described above.

In connection with solving the problem of urban traffic congestion, increasing reference is being made to the part which can be played by better public transit including subways and rail commuter services. This is sound, provided it will lower the costs of public transportation services, reduce travel time and lessen inconvenience to the public. But we cannot ignore a danger which is becoming more and more apparent. It is that the municipalities will press for the use, either directly or indirectly, of motor vehicle tax receipts to meet the cost of such non-highway facilities. This request may take one of several forms. The Ontario Government may be asked to abolish the present requirement that Provincial subsidies be paid only towards the approved cost of roads and bridges. Second, and far more insidious, the proposal may be made that road grants be increased to the point where the Provincial Government pays most of the cost of municipal roads and streets. This would enable that part of municipal revenue which should properly be spent on highways to be used for the support of other types of transportation facilities. Third, it may be suggested that the Ontario Government return to a given municipality, without any strings attached, a percentage of the gasoline tax revenue generated within the latter's jurisdiction.

The first two of these proposals are blatantly unfair to motor vehicle owners. The third contains a serious danger to both highway users and the Government. If the Province were to grant a request for the partial return of gasoline tax revenue, the door would be opened to a flood of similar requests from other municipalities, which could not fairly be denied. We suggest that, quite apart from other considerations, this would be a most inappropriate moment - in view of the Government's rapidly growing financial commitments in many directions - for it to abandon control of a substantial part of its revenue. Furthermore, as long as the disposition of all but a small fraction of highway user tax payments in Ontario remains the prerogative of the Provincial Legislature, motor vehicle owners - including the members of this Association - have a firm guarantee that equity, rather than political expediency in local areas, will continue to be the guiding principle in the assessment of motor vehicle tax rates.

All types of motor vehicles (passenger cars included) are in competition, in the true sense, with other forms of transportation by land, water and air.

P.C.V. operators in particular face a strong challenge from the railways, and this challenge is growing rapidly as a result of the huge rail subsidies paid by the Federal Government. Little knowledge of transportation principles is required to realize that, because of this keen inter-agency competition within the transportation industry, the revenue from motor vehicle taxes should on no account be used, via the Consolidated Revenue Fund, to finance non-highway expenditures.

Unless diversion is strictly avoided, there is a grave danger that motor vehicle owners will be compelled in perpetuity to pay an annual amount which

exceeds their fair share of the cost of highways. If this occurs, vehicle operating costs and freight charges will be forced above their true level, highway transportation discouraged and an important part of the Province's economic resources misused.

Particularly serious will be the unwarranted diversion of freight to the railways, which will impose a heavy penalty on people and communities without rail service. It should be remembered that three out of five Ontario communities are wholly dependent on truck transport; further, that railway mileage in the Province is less than one-eighth the highway mileage and is constantly shrinking, due to abandonments.

Other disadvantages are that the opening up of the Province will be retarded and the Government's vast investment in highways partially nullified. The latter will result from the discouragement of motor vehicle travel and the non-realization of anticipated tax revenues.

Here we must warn against the false assumption, still all too prevalent, that motor vehicle users are largely impervious to increases in the gasoline tax. Several reasons have already been given why this is not true of commercial vehicle operators, among whom there has been an increasing rate of bankruptcy during recent years. Even in the case of passenger car owners, however, it is being disproved by the increasing use of compact cars, with their much lower rates of fuel consumption.

The greatest loss from the diversion of highway revenue--and it will be a permanent, continuing loss--will be suffered by the people of Ontario as a whole, who will pay higher prices for everything they eat, wear or use, as the result of inflated transportation charges.

It is obvious that insofar as a solution to the problem of urban street congestion is provided through the development of non-highway modes of transportation, motor vehicle owners should not be expected to contribute, either directly or indirectly, towards their cost. This is because they cannot, <u>as motor vehicle users</u>, make use of these facilities.

In regard to truck owners, the inequities inherent in the three proposals discussed above are even more apparent. Subways, rail commuter services and other forms of public transit carry <u>passengers</u>. What possible justification could there be for requiring truck owners, who transport only freight, to pay towards the cost of passenger facilities?

Revenue needed for non-highway purposes should be obtained from a general levy such as the sales tax, through which Ontario motorists are already making heavy contributions in the purchase price of motor vehicles and parts. It should not be extracted in discriminatory fashion from one segment of a highly competitive industry.

As in the case of hydro-electric power and other public utilities, heavy capital outlays on rapid transit and rail-commuter services could be financed through the issue of bonds.

It cannot be too strongly emphasized that diversion has two fundamental defects, to which the most serious thought should be given.

First, as soon as motor vehicle owners are compelled to pay more than their fair share of highway costs, the test of their effective demand for highway services, which is an important aid to determining the most "economic" level of highway investment, is destroyed.

Second, although it may appear to offer an "easy way out" of present difficulties, diversion encourages wasteful expenditure by the municipalities.

Only by keeping local residents constantly aware of the sacrifices involved in creating public works, of which they are in any case the chief beneficiaries, can overinvestment in these facilities be prevented. The best guarantee of this awareness is to obtain from them, through local taxes, the maximum contribution which they can fairly be expected to make.

TOLL CHARGES

Bridges, such as the Burlington and Garden City Skyways, or ferries owned by the Province are financed in exactly the same way as the remainder of Ontario's highway system--from the current revenues of the Department of Highways. There are no special circumstances, such as would exist if the original capital funds had been obtained from bond issues, to justify the imposition of toll charges. In the fiscal year ending March 31st, 1962, gross revenue from the Burlington Skyway ($707,908) exceeded toll collection costs ($205,999) by $501,909. (Heavy trucks and buses paid 5.3 per cent of gross revenue, although they formed only 1.5 per cent of total traffic.) From this, it would appear that the main element in the present toll rates is a capital replacement charge. This is paid entirely by motor vehicle owners, although the Skyway is conferring important economic and other benefits (direct or indirect) on all sections of Ontario's population. For this reason, and because the use of different financing principles under identical circumstances cannot be justified, present toll charges on bridges and ferries owned by the Province should be abolished.

Tolls on international facilities, owned jointly by the Province and neighbouring States, should be purely nominal. The present charges for the bridge linking Ontario and Michigan at Sault Ste. Marie are excessive in comparison with those levied for similar facilities in other jurisdictions.

RECOMMENDATIONS

1. THAT THERE BE NO INCREASE IN MOTOR VEHICLE TAXES TO MEET PURELY SHORT-TERM HIGHWAY REVENUE DEFICIENCIES.

Over the program period as a whole, provincial and municipal road funds from all sources will exceed total "needs" by no less that $1.8 billion. And this surplus is based on the present "needs" figure, although the latter is probably an over-estimate.

2. THAT THE COST OF DEVELOPMENT ROADS, IN THE BROAD SENSE, BE DEDUCTED BEFORE THE DOLLAR AMOUNT OF THE MOTOR VEHICLE OWNERS' RESPONSIBILITY IS FINALLY DETERMINED.

Motor vehicle owners derive little or no direct benefit from a substantial part of Ontario's 77,000 miles of rural highways and roads, particularly those in Northern Ontario. These are in the true sense "development" roads, whose sole or predominant purpose is to develop Ontario's economic potential. Their cost should be borne by the community as a whole and met from the Province's general revenue.

3. THAT NO POLICY BE ADOPTED WHICH WOULD HAVE THE EFFECT OF INCREASING THE SHARE OF HIGHWAY COSTS NOW PAID BY MOTOR VEHICLE OWNERS.

The most advanced and widely accepted method of apportioning highway costs between motor vehicle owners and other beneficiaries is the Earnings Credit Method. All recent state and Federal studies in the United States have used this method, which has shown the user share to be less than 65 per cent. It is virtually certain that a closely similar proportion holds good for Ontario. In striking contrast, over the period 1946-1960 motor vehicle owners in this Province paid 94 per cent of all Provincial highway expenditures and no less than 76 per cent of Provincial and Municipal expenditures combined.

4. THAT THERE BE NO "DIVERSION" OF MOTOR VEHICLE TAX RECEIPTS TO NON-HIGHWAY PURPOSES. IN PARTICULAR, THESE RECEIPTS SHOULD ON NO ACCOUNT BE USED, EITHER DIRECTLY OR INDIRECTLY, TO SUBSIDIZE THE DEVELOPMENT OF NON-HIGHWAY MODES OF TRANSPORTATION, SUCH AS SUBWAYS AND RAIL COMMUTER SERVICES.

It is now almost universally recognized that the only sound, equitable method of determining motor vehicle tax rates is on the basis of "costs caused". To set tax rates at higher levels, in order to use the surplus for non-highway purposes, would be to deny this and ignore the vital economic fact that highway transportation is but one segment of a highly competitive industry. "Diversion" would result in serious misuse of the Province's productive resources. It would have a crippling effect on for-hire truck owners and would force the people of Ontario to pay higher prices for everything they eat, wear and use. Once begun, diversion (like crime) would have no foreseeable end.

5. THAT NO CHANGE BE MADE IN THE TAXES LEVIED ON HEAVY TRUCKS AND TRAILERS UNLESS IT IS PROVED BEYOND DOUBT, AS THE RESULT OF A THOROUGHLY SCIENTIFIC STUDY, THAT THEY ARE PAYING EITHER TOO MUCH OR TOO LITTLE FOR THEIR USE OF THE HIGHWAYS.

In 1961, commercial vehicles, representing 15.2 per cent of total Provincial registrations, accounted for over $94 million in registration fees and fuel taxes -- close to 40 per cent of the total Provincial taxes collected from all motorists. Tractors and semi-trailers totalled 1.86 per cent of registrations and paid over $32.5 million, or 13.66 per cent of total Ontario road user taxes.

6. THAT THE PRESENT THIRD-STRUCTURE P.C.V. FEES BE ABOLISHED AND REPLACED BY A SINGLE FLAT FEE, SUFFICIENT ONLY TO COVER THE COST OF ADMINISTERING THE PUBLIC COMMERCIAL VEHICLES ACT.

Attempts have been made to justify the present third-structure tax -- public commercial fees -- on trucks in Ontario, with the argument that operators of "for-hire" vehicles obtain special "benefits" from their use of the highways. This approach is in direct conflict with the modern concept of highways, which is that they should be administered as an economic enterprise, with user charges based solely on costs caused.

The "benefit" theory is unsatisfactory, because there is as yet no known method of either identifying or measuring benefits with even approximate accuracy. It also discriminates unfairly against the small shipper. The latter in most cases cannot afford to buy his own vehicles and must hire the services of common or contract carriers, whose charges include the additional taxes they are called on to pay. Furthermore, where a for-hire operator makes the same physical use of the highways as a private operator and is therefore responsible for the same share of highway costs, it is plainly inequitable that he should have to pay extra fees, levied in accordance with an outmoded concept of the provision of highways by government.

7. THAT THE PAYMENT OF ROAD SUBSIDIES BE MADE SUBJECT TO THE CONDITION THAT MUNICIPAL ROADS AND STREETS ARE MADE AVAILABLE WITHOUT UNDUE RESTRICTION FOR USE BY ALL TYPES OF MOTOR VEHICLES, INCLUDING HEAVY TRUCKS.

Heavy commercial vehicles are banned from most streets in the City of Toronto and Metropolitan Toronto, despite the fact that truck owners pay a large proportion of the total revenue from motor vehicle taxes. Unless firm action is taken by the Government of Ontario, this long-standing inequity will be greatly increased in the future, if a substantially larger proportion of motor vehicle tax receipts is used for the improvement of local roads and streets.

8. THAT TOLL CHARGES ON BRIDGES AND FERRIES OWNED BY THE PROVINCE BE ABOLISHED AND THAT TOLL CHARGES ON INTERNATIONAL FACILITIES (OWNED JOINTLY BY THE PROVINCE AND NEIGHBOURING STATES) BE MADE PURELY NOMINAL.

The capital funds required for Provincially-owned toll bridges and ferries were obtained not from bond issues, but from ordinary revenues. Exactly the

same financing method was used for all other parts of the highway system, so that there is no justification for the present toll charges. They should be abolished.

Charges for commercial vehicles on the International Sault Ste. Marie Bridge are excessive by comparison with those levied for similar facilities elsewhere and should be reduced.

9. THAT THE PROVINCIAL GOVERNMENT MAKE STRONG REPRESENTATIONS TO THE GOVERNMENT OF CANADA, WITH THE OBJECT OF OBTAINING INCREASED FEDERAL PARTICIPATION IN THE COST OF HIGHWAYS OF NATIONAL IMPORTANCE IN ONTARIO.

Federal aid is restricted to the Trans-Canada Highway and involves an average annual payment of only some $8 million to this Province over the 13 years of the main agreement. Such a narrow policy ignores the national value of other major Provincial routes, such as Highway 401. It is in conflict with the increasingly important role in the Emergency Measures Organization assigned by the Federal Government to commercial motor transport. The people of Ontario, including motor vehicle owners, are now paying highway costs which should be borne by the Government of Canada. Immediate action should be taken to remove this inequity.

APPENDIX

THE FEDERAL GOVERNMENT AND HIGHWAY DEVELOPMENT

"We have noticed that the Committee has also considered the question of the Federal Government's revenues from highway users and their contribution to highway expenditures. We submit that Federal aid for highway development is extremely important, and should go further than the cost-sharing scheme of the Trans-Canada Highway.

"It is the duty of the Federal Government to maintain and strengthen the unity of the nation. Down through the years it has spent billions to create a transportation and communications system to unite the country. Waterways were first developed, then assistance was given to the railways, then the airways, and now a revival of waterway assistance in the development of the St. Lawrence Seaway is taking place. The building of railways made Confederation possible and we do not grudge the hundreds of millions of dollars and millions of acres of land given as subsidies to the railways.....

"Latterly the Federal Government assisted civil aviation by building and maintaining airports, radio and air traffic control systems, which are provided virtually free of charge. Air freight and express, rail and waterborne traffic all compete with truck transportation, and yet we do not use the argument that our taxes help our competitors. Although, as a matter of fact, they do.

"We are concerned with a different problem: a long distance highway vehicle helps as much to build a national market as a railway car or a cargo plane. On the other hand, the provision of highway facilities for transport movements across the nation is extremely expensive. It is a geographical fact, very much relevant to our provincial highways system, that there is a gap between Eastern and Western Canada which is expensive to bridge. Our railways receive a "bridge subsidy", and yet our Province, which contributes the lion's share of the taxes from which this bridge subsidy is paid, has to cover more than half of the cost of the highway bridge through Northern Ontario. As much as we appreciate the prospective value of the Trans-Canada Highway, we are concerned with the large burden on the Provincial highway budget.

"We submit that Federal contributions to highway development should be stepped up, that the Trans-Canada Highway System should be considered as part of an interprovincial highway system, financed by Federal revenues accruing from Federal taxes on the motorist--taxes which are now diverted to general revenues.

"We should like to see the Federal Government recognize the fact that highway transportation is of tremendous national importance, broadening markets for Canadian industry, of inestimable value in providing defence and disaster services, and, in general, promoting the economic unity of the country."

(The Automotive Transport Association of Ontario--Interim Submission to the Select Committee on Toll Roads Appointed by the Legislature of the Province of Ontario--November 2, 1956).

TABLE

COMPARISON BETWEEN ANNUAL TAXES
(STATE & PROVINCIAL) PAID BY
(1) U.S. AVERAGE AND (2) ONTARIO VEHICLES

Vehicle Class	PRIVATE			P.C.V.		
	U.S. Average (1)	Ontario (2)	Ontario as % of U.S. Average	U.S. Average (1)	Ontario (2)	Ontario as % of U.S. Average
Passenger Cars	$	$		$	$	
1. Light--Imported	46.80	51.08	109.0	not applicable		
2. Medium	72.77	88.57	121.7			
3. Heavy	111.93	110.15	98.4			
Straight Trucks (Gross Weights)						
4. 5,000 lbs.--gas	81.74	101.25	123.4	--	--	--
5. 15,000 lbs.--gas	181.20	270.97	149.5	257.13	420.91	153.0
6. 19,000 lbs.--gas	262.09	395.66	151.0	394.37	605.08	153.4
7. 40,000 lbs.--diesel	887.70	1,354.50	152.6	not included in U.S. study		
Tractor-Trailer Combinations (Gross Weights)						
8. 40,000 lbs.--gas--3 axle (22,000 + 18.000)	912.71	1,188.66	130.2	988.30	1,329.66	134.5
9. 55,000 lbs.--gas--4 axle (25,000 + 30,000)	1,605.45	2,125.00	132.4	1,728.59	2,335.00	135.1
10. 55,000 lbs.-diesel-4 axle (24,000 + 31,000)	1,421.30	2,169.80	152.7	1,546.99	2,379.80	153.8
11. 62,000 lbs.-diesel-5 axle (35,000 + 27,000)	1,913.62	2,965.20	154.4	2,095.03	3,212.70	153.3
12. 72,000 lbs.-diesel-5 axle (40,000 + 32,000)	2,139.79	3,300.68	154.3	2,291.72	3,570.18	155.8

N.B.-- B.P.R. miles per gallon figures were used to calculate fuel tax payments for vehicles in each class. For Ontario, these were converted in the ratio of 6 U.S.: 5 Imp. gallons.

Sources:

(1) Average State Taxes: "Road User and Property Taxes on Selected Motor Vehicles, 1960"--Bureau of Public Roads--Washington, D.C.

(2) The Automotive Transport Association of Ontario